



AB 1X sent to Governor

Assembly passes state power-buying bill

The Assembly has passed a plan to ease California's electricity crisis by letting the state buy power on behalf of two large cash-starved utilities and sell it with no rate increase directly to Californians. After failing to get the necessary votes late Wednesday night, the Assembly returned to its chambers Thursday afternoon and voted 54-25 for AB 1X by Assemblyman Fred Keeley (D-Monterey). The measure has been sent to the governor who, earlier, had sent lawmakers a letter urging them to back the bill, and promising to sign it.

The bill would let the state sign long-term contracts to buy power and sell it to the customers of Southern California Edison and Pacific Gas and Electric Co. The two together serve nearly 9 million residential and business ratepayers.

Statement by Speaker Robert M. Hertzberg on passage of AB 1X

With passage of this bill, the California State Legislature has accomplished the goals of the Governor by passing bipartisan legislation which deals with the current energy crisis. We have addressed the most urgent and pressing part of the problem identified by the Governor – taking the first step to secure reliable electricity for the citizens of our state.

The Governor's overriding goal has always been to keep the power on and get the best deal possible for ratepayers. The public has demanded leadership and decisive action to deal with this crisis, and we have worked tirelessly to ensure Californians have stable, reliable and affordable energy.

The Governor has the tools to move forward to end this crisis. It is our hope that he moves swiftly and promptly.

Leadership Points on AB 1X

- With the passage of AB 1X, California is finally *turning a corner* on the energy crisis.
- This legislation will allow the state of California to enter into long-term contracts for electricity, greatly reducing the cost of power in the future.
- By passing this bill, California taxpayers will no longer be forced to spend \$45 million a day in state funds for the emergency purchase of energy to keep the lights on.
- With long-term contracts on power, California will be less exposed to blackouts and energy shortages.
- We fought hard in this legislation to limit the possibility of rate increases. We firmly believe that this bill will prevent any rate increase for the foreseeable future. The revenue bonds will protect against any short-term rate increases and repay taxpayers for money spent recently to purchase power on the spot market.
- This is *absolutely not* a "bailout" bill for the utility industry. This bill deals exclusively with the future purchase of power for the people of California.
- Although this is a positive step forward, there is still a great deal of work to be done to secure California's energy future. We in the Assembly will continue to work tirelessly to get the job done.

Audits of utilities in

Pacific Gas & Electric Co. ignored months of warnings that California was headed toward an energy crisis, according to a report castigating the state's largest utility for not taking steps auditors say could have kept it from the brink of bankruptcy.

Meanwhile, California remained under a Stage 3 power alert for a record 16th consecutive day Wednesday. The managers of the state's electrical grid said energy supplies had improved slightly and blackouts were not expected.

The audit, prepared by the Barrington-Wellesley Group, Inc. of New London, N.H., at the state's request, agreed with PG&E's warnings that it is about to go broke. But it also accused the investor-owned utility of failing to heed months of warnings that California's deregulated electricity

market was in severe trouble. Auditors said the company failed to realize that electricity wholesalers would shut off its credit until it was billions of dollars in debt.

"PG&E did not anticipate it would be constrained in its borrowings and did not develop a cash conservation program until December 2000," the audit said.

PG&E said in a statement it would "study and evaluate this report thoroughly."

According to the report, released Tuesday night, PG&E turned over nearly one-third of its cash flow to its corporate parent, PG&E Corp., during the first nine months of 2000. It paid PG&E Corp. \$632 million in dividends during that time and \$4.7 billion since 1997, according to the report.

A similar report released Monday on Southern California Edison reported that the state's second-largest utility paid its parent company, Edison International, \$4.8 billion in dividends in the five years leading up to the electricity crisis. Auditors said that amount would have covered the bill Edison has run up since May as it has been forced to buy costly wholesale electricity during a deregulation-induced freeze on its retail rates.

PG&E Corp. has spent \$800 million of the money it collected from PG&E to support other subsidiaries, auditors said, while providing no cash, credit or other financial assistance to its struggling California utility.

The audit also scored PG&E for not moving quickly to save money when things turned bad.

Democrats seek more action in energy crunch

Senate Democrats criticized President Bush for refusing to act more aggressively in California's power crisis and said Wednesday the problem will spread and worsen this summer unless wholesale energy prices in the state are reined in.

Sen. Jeff Bingaman, D-N.M., said the administration's "only solution to the problem" in California is to develop oil in an Arctic wildlife refuge in Alaska when such drilling "will not fix what's wrong with California's electricity market."

The president "still seems to believe this is California's problem" while acknowledging that the impact already is being felt beyond the state's borders, said Bingaman.

But Sen. Frank Murkowski, R-Alaska, said expanded oil production, including drilling in the Arctic National Wildlife Refuge in Alaska, is key to a broader energy plan and defended the administration's actions toward California.

Nevertheless, Murkowski conceded, "Oil and ANWR is not going to bail out California's problem."

Several Democrats, including California's two senators, said the federal government should impose restrictions on wholesale power prices, a move Bush has rejected.

Sen. Dianne Feinstein, D-Calif., cited a study predicting that California could be as much as 5,000 megawatts of power short this summer, raising the specter of even more severe electricity problems ahead.

Senate Committee meets

The U.S. Senate Energy committee will hold a hearing next Wednesday on the California electricity crisis, seeking

to identify ways to prevent it from spreading to other western states now selling their excess power to California. In submitted testimony, Assembly Speaker Robert M. Hertzberg called on Congress "to join with us in crafting a solution to the enormous energy problems that confront the people of California and put at risk not only the reliability of our energy, but also the great engine of our state's economy. As many have said in recent days, including federal reserve chairman Alan Greenspan, a failure to adequately ensure reliability of supply at affordable rates for Californians may have a large and negative ripple effect on the economy of the entire nation.

The Speaker outlined a number of principles that, he said, the Governor and legislative leaders had agreed to, including,

- Aggressively promoting energy efficiency.
- Increasing the supply of electrical generation by streamlining the permitting and construction of new plants.
- Authorizing the state to enter into long-term contracts with power providers and to sell power directly to ratepayers.
- Reducing the price paid to qualified facilities by negotiating reductions in their contract rates, and
- Resolving outstanding regulatory and legal actions initiated by the utilities to recover undercollections.

"Our efforts are on-going," the Speaker's prepared testimony continued, "multi-faceted and around the clock...The team of experts we have assembled from throughout the nation is working to craft a long-term solution that...ensures strong protections for our citizens and financial safeguards for the state.

"California has three new power plants coming on line this year alone," Hertzberg's testimony continued. "Nine others have been approved and five are already under construction. Every one of us is hard at work to get this job done: secure energy supplies and fair energy prices.

"We look forward to working with you and other members of congress as we work on siting new power plants, providing diverse energy sources, developing substantial conservation plans, and the interstate supply and demand issues that the entire western region is facing this summer," the California Speaker's comments concluded.

Federal Government Fears They Could Be Held Liable For Emergency Orders

The federal government could face millions, perhaps billions, of dollars in liability if California regulators do not find a way to save the state's three largest electricity providers from bankruptcy, Senate Energy and Natural Resources Chairman Murkowski said today.

Murkowski said the federal government assumed a "contingent liability" when the Energy Department forced electricity suppliers to pump power to California's electricity utilities.